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March 29, 2018

The Honorable Jocelyn G. Boyd
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, SC 29210

**Re: Application Regarding the Acquisition of Progress Energy, Incorporated by
Duke Energy Corporation and Merger of Progress Energy Carolinas,
Incorporated and Duke Energy Carolinas, LLC
Docket Number 2011-158-E**

Dear Ms. Boyd:

Pursuant to the directive Order No. 2016-772 adopting the Amended Regulatory Conditions and Code of Conduct to include Piedmont Natural Gas Company, Inc. and Regulatory Condition Number 8.12, please find Duke Energy Carolinas, LLC, Duke Energy Progress, LLC and Piedmont Natural Gas Company, Inc.'s Annual Report on Corporate Governance and Finance for 2017.

If you have any questions, please let me know.

Sincerely,

Rebecca J. Dulin

RJD/trh
Enclosures

cc: Ms. Nanette Edwards, Esq., Office of Regulatory Staff
Ms. Dawn Hipp., Office of Regulatory Staff
Mr. Jeffrey M. Nelson, Esq., Office of Regulatory Staff
Ms. Shannon Bowyer Hudson, Esq., Office of Regulatory Staff
Mr. Michael Seaman-Huynh, Office of Regulatory Staff

**DUKE ENERGY CAROLINAS, LLC
DUKE ENERGY PROGRESS, LLC
PIEDMONT NATURAL GAS COMPANY, INC.
ANNUAL REPORT ON CORPORATE GOVERNANCE
Docket Nos. E-7, Sub 1100B, E 2, Sub 1095B and G-9, Sub 682B
Regulatory Condition No. 8.12
Year Ended December 31, 2017**

Regulatory Condition No. 8.12 requires that Duke Energy Carolinas, LLC (“DEC”), Duke Energy Progress, LLC (“DEP”) and Piedmont Natural Gas Company, Inc. (“Piedmont”) file a report including the following:

- (a) *A complete, detailed organizational chart (i) identifying DEC, DEP, Piedmont and each Duke Energy financial reporting segment, and (ii) stating the business purpose of each Duke Energy financial reporting segment. Changes from the report for the immediately preceding year shall be summarized at the beginning of the report.*

RESPONSE:

See organizational chart in Attachment 1.

The following information is adapted from the Duke Energy Corporation (“Duke Energy”) Annual Report on Form 10-K for the year ended December 31, 2017. It provides a description of each of Duke Energy’s three financial reporting segments, including: Electric Utilities and Infrastructure, Gas Utilities and Infrastructure, and Commercial Renewables.

Electric Utilities and Infrastructure

Electric Utilities and Infrastructure conducts operations primarily through DEC, DEP, Duke Energy Florida, Duke Energy Indiana, Duke Energy Ohio, and Duke Energy Kentucky. Electric Utilities and Infrastructure provides retail electric service through the generation, transmission, distribution and sale of electricity to approximately 7.5 million customers within the Southeast and Midwest regions of the U.S. The service territory is approximately 95,000 square miles across six states with a total estimated population of 24 million people. The operations include electricity sold wholesale to municipalities, electric cooperative utilities and other load-serving entities. Electric Utilities and Infrastructure is also a joint owner in certain electric transmission projects. Duke Energy owns a 50 percent interest in Duke American Transmission Co. (“DATC”), a partnership with American Transmission Company, formed to design, build and operate transmission infrastructure. DATC owns 72 percent of the transmission service rights to Path 15, an 84-mile transmission line in central California. Duke Energy also owns a 50 percent interest in Pioneer Transmission, LLC, which builds, owns and operates electric transmission facilities in North America.

Operations and investments in this segment are typically subject to the rules and regulations of the Federal Energy Regulatory Commission (“FERC”), the North Carolina Utilities Commission (“NCUC”), the Public Service Commission of South Carolina (“PSCSC”), the Florida Public Service Commission (“FPSC”), the Indiana Utility Regulatory Commission

(“IURC”), the Public Utilities Commission of Ohio (“PUCO”), and the Kentucky Public Service Commission (“KPSC”).

Gas Utilities and Infrastructure

Gas Utilities and Infrastructure conducts natural gas operations primarily through the regulated public utilities of Piedmont and Duke Energy Ohio. The natural gas operations are subject to the rules and regulations of the NCUC, PSCSC, PUCO, KPSC, Tennessee Public Utility Commission (“TPUC”), Pipeline and Hazardous Materials Safety Administration (“PHMSA”) and the FERC. Gas Utilities and Infrastructure serves residential, commercial, industrial and power generation natural gas customers. Gas Utilities and Infrastructure has over 1.5 million customers, including more than one million customers located in North Carolina, South Carolina and Tennessee, and an additional 526,000 customers located within southwestern Ohio and northern Kentucky. In the Carolinas, Ohio and Kentucky, the service areas are comprised of numerous cities, towns and communities. In Tennessee, the service area is the metropolitan area of Nashville.

Gas Utilities and Infrastructure also owns, operates and has investments in various pipeline transmission and natural gas storage facilities. Duke Energy owns a 47% equity interest in Atlantic Coast Pipeline, LLC, a 7.5% equity interest in Sabal Trail Transmission, LLC, a 21.49% equity interest in Cardinal Pipeline Company, LLC, a 24% equity interest in Constitution Pipeline Company, LLC, a 45% equity interest in Pine Needle LNG Company, LLC, and a 50% equity interest in Hardy Storage Company, LLC.

Commercial Renewables

Commercial Renewables primarily acquires, builds, develops and operates wind and solar renewable generation throughout the continental U.S. The portfolio includes nonregulated renewable energy and energy storage businesses.

Commercial Renewables’ renewable energy includes utility-scale wind and solar generation assets, which total 2,907 MW across 14 states from 21 wind farms and 63 commercial solar farms. Revenues are primarily generated by selling the power produced from renewable generation through long-term contracts to utilities, electric cooperatives, municipalities and commercial and industrial customers. In most instances, these customers have obligations under state-mandated renewable energy portfolio standards or similar state or local renewable energy goals. Energy and renewable energy credits generated by wind and solar projects are generally sold at contractual prices. In addition, as eligible wind and solar projects are placed in service, Commercial Renewables recognizes either investment tax credits (“ITC”), when the renewable project achieves commercial availability, or production tax credits, as power is generated by the project over 10 years. Renewable ITC are recognized over the useful life of the asset as a reduction to depreciation expense with the benefit of the tax basis adjustment due to the ITC recognized in income in the year of commercial availability.

As part of its growth strategy, Commercial Renewables has expanded its investment portfolio through the addition of distributed solar companies and projects, energy storage systems and energy management solutions specifically tailored to commercial businesses. These investments include the 2015 acquisition of a controlling interest in REC Solar Corp., a California-based provider of solar installations for retail, manufacturing, agriculture, technology, government and nonprofit customers across the U.S., and Phoenix Energy Technologies Inc., a California-based provider of enterprise energy management and information software to commercial business. In 2017, Duke Energy acquired the remaining interest in REC Solar.

- (b) *A list of all Duke Energy financial reporting segments that are considered to constitute non-regulated investments and a statement of each segment's total capitalization and the percentage it represents of Duke Energy's non-regulated investments and total investments. Changes from the report for the immediately preceding year shall be summarized at the beginning of the report.*

RESPONSE:

Table 1: Non-Regulated Segments Total Capitalization

(\$ in millions)

Significant Segment	Total Capitalization	Change from Prior Year	% of Duke Energy	% of Total Non-Regulated Assets
Duke Energy	\$96,179	\$4,756	-	-
Commercial Renewables ⁽¹⁾	\$5,294	\$899	3.0%	59.1%

(1) Increase is in part due to the change in the business segments.

For the purposes of this report, total capitalization is the sum of total debt, including current maturities of long-term debt, and notes payable and commercial paper, and total equity as of the measurement date (December 31, 2017). The information in this report is primarily from Duke Energy's Form 10-K, for the year ended December 31, 2017.

- (c) *An assessment of the risks that each unregulated Duke Energy financial reporting segment could pose to DEC, DEP or Piedmont based upon current business activities of those affiliates and any contemplated significant changes to those activities.*

RESPONSE:

DEC, DEP and Piedmont know of no significant risk posed to them based upon the current business activities of Duke Energy's unregulated affiliates, and know of no contemplated significant changes to those activities that would change this assessment.

- (d) *A description of DEC's, DEP's, Piedmont's and each significant Affiliate's actual capital structure. In addition, describe Duke Energy's, DEC's, DEP's and Piedmont's respective capital structures and plans for achieving such goals.*

RESPONSE:

Table 2: Table of Actual Capital Structures as of December 31, 2017 for Duke Energy Carolinas, Duke Energy Progress, and Significant Affiliates (based on U.S. GAAP)⁽¹⁾

Significant Affiliate	<u>Total Debt</u>		<u>Total Equity</u>		Total Capitalization (\$MM)
	\$MM	% Cap	\$MM	% Cap	
Duke Energy Carolinas	\$10,207	47.3%	\$11,361	52.7%	\$21,568
Duke Energy Progress	\$7,597	48.9%	\$7,949	51.1%	\$15,546
Duke Energy Florida	\$7,095	55.8%	\$5,618	44.2%	\$12,713
Duke Energy Indiana	\$3,943	48.9%	\$4,121	51.1%	\$8,064
Duke Energy Ohio ⁽²⁾	\$2,096	39.8%	\$3,164	60.2%	\$5,259
Duke Energy Kentucky	\$451	46.9%	\$511	53.1%	\$963
Piedmont Natural Gas	\$2,401	59.1%	\$1,662	40.9%	\$4,063
Commercial Renewables	\$1,884	35.6%	\$3,410	64.4%	\$5,294

(1) Excludes debt balances recorded at the Duke Energy and Progress Energy, Inc. levels.

(2) Includes Duke Energy Kentucky

DEC's, DEP's and Piedmont's goal is to maintain capital structures that, over time, achieve the approved regulatory capital structures. In addition to capital structure, the Companies also seek to maintain credit metrics that support investment grade credit ratings. The Companies believe this positions them to withstand the volatility of different business cycles while also providing a cushion to the Companies' lenders and bondholders. A strong capital structure and an adequate return on equity provide the balance sheet protection and cash flow generation to support high credit quality, which in turn creates financial flexibility, greater access to the capital markets, and ultimately lower overall financing costs.

DEC's, DEP's, and Piedmont's capital requirements are expected to be funded from cash generated from operations, long-term debt borrowings, and equity contributions from the parent company. Equity funding requirements, to the extent they are required to maintain an appropriate capital structure for DEC, DEP, and Piedmont may be satisfied through either reductions in the dividends the Companies pay to the holding company or through the receipt of equity contributions from the holding company. The actual equity component of the capital structures at any point in time may be higher or lower depending on capital expenditures, operating cash flows or dividend fluctuations, but over time the regulatory approved equity component is expected to be achieved.

Duke Energy intends to maintain a capital structure that supports strong credit quality, supports its operating utilities in the maintenance of their targeted capital structures, and enables it to invest in its regulated and non-regulated businesses. Duke Energy's current book value capital structure is approximately 57% debt (including short-term debt) and 43% equity. Duke Energy believes its capital structure is appropriate and supports its ability to balance its financial strength and investment.

- (e) *A list of all protective measures (other than those provided for by the Regulatory Conditions adopted in Docket No. E-7, Sub 1100, E-2, Sub 1095 and G-9, Sub 682) in effect between DEC, DEP, Piedmont and any of their Affiliates, and a description of the goal of each measure and how it achieves that goal, such as mitigation of DEC's, DEP's and Piedmont's exposure in the event of a bankruptcy proceeding involving any Affiliate(s).*

RESPONSE:

In addition to the protections by state and federal utility regulation and the Commission's various orders, including the *Order Approving Merger Subject to Regulatory Conditions and Code of Conduct* in Docket Nos. E-7, Sub 1100, E-2, Sub 1095 and G-9, Sub 682, DEC, DEP and Piedmont are protected from liability for the obligations of their affiliates through the use of separate and distinct legal entities in which to operate the business of their affiliates. Furthermore, because DEC, DEP and Piedmont do not own any significant affiliates, even an unlikely instance of "piercing the corporate veil" to impose liability upon the parent company of any affiliate would not impact DEC, DEP or Piedmont. All of DEC's, DEP's, and Piedmont's affiliates are owned directly or indirectly by Duke Energy, whose obligations are separate from, and non-recourse to, DEC, DEP, and Piedmont.

- (f) *A list of corporate executive officers and other key personnel that are shared between DEC, DEP, Piedmont and any Affiliate, along with a description of each person's position(s) with, and duties and responsibilities to each entity.*

RESPONSE:

Please see Attachment 2.

- (g) *A calculation of Duke Energy's total book and market capitalization as of December 31 of the preceding year for common equity, preferred stock, and debt.*

RESPONSE:

Duke Energy – Calculation of Total Market Capitalization as of December 31, 2017 (\$ in millions):

a. Market Value of Common Equity at 12/31/2017

Closing price per share at 12/31/2017:	\$ 84.11	
Total DUK shares outstanding at 12/31/2017:	700	million shares
Total Market Value of Equity	\$ 58,877	
Total U.S. GAAP Equity	\$ 41,737	

b. Total Debt at 12/31/2017 (U.S. GAAP)

Notes payable and commercial paper	\$ 2,163
Current maturities of long-term debt	\$ 3,244
Long-term debt	\$ 49,035
Total Debt	\$ 54,442

c. Preferred Stock

\$-

Total Capitalization (Market Equity, U.S. GAAP Debt) at 12/31/2017	\$113,319
Total Capitalization (U.S. GAAP) at 12/31/2017	\$96,179

Note: For the purposes of this report, total capitalization is the sum of total debt, including current maturities of long-term debt, and notes payable and commercial paper, and total equity as of the measurement date (December 31, 2017). The information in this report is primarily from the Form 10-Ks of Duke Energy, DEC, DEP, Duke Energy Florida, Duke Energy Ohio, Duke Energy Indiana and Piedmont, respectively for the year ended December 31, 2017 (Duke Energy Kentucky's data is from its audited 2017 financial statements). For identified significant Affiliates that are not SEC registrants, the financial information used to show capital structures are the segment reporting consolidating schedules that support the Duke Energy Form 10-K, also for the year ended December 31, 2017.